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Report to the United Nations Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions

Summary

The present document reports on the steps taken or to be taken in response to the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1998-1999. It also presents the status of implementation of the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1996-1997.

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I. Introduction

1. As an ongoing practice, UNICEF has been submitting a report to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ), to advise the Assembly as to the measures that the organization takes to implement the recommendations of the United Nations Board of Auditors.

2. The present report reviews the implementation by UNICEF of the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1998-1999. The report also discusses the status of implementation of the recommendations of the Board of Auditors on the accounts for the biennium 1996-1997.

3. The administration wishes to note that to underline the importance that UNICEF places on audit recommendations from both the United Nations Board of Auditors and its own Office of Internal Audit (OIA), UNICEF has institutionalized the procedures for the review of audit matters through the Audit Committee. The Committee, which is composed of senior staff of the organization, periodically reviews matters of critical concern raised during audits, both external and internal. The Audit Committee, which is chaired by the Executive Director, has instituted an appropriate follow-up mechanism whereby the responsible and accountable officials are asked to provide explanations on matters pertaining to them.

4. As noted by the General Assembly in A/54/159 dated 2 July 1999, the administration has informed the United Nations Board of Auditors that one officer, the Executive Director, is responsible for overseeing the implementation of audit recommendations. This accountability is shared by the senior staff responsible for the specific areas covered in the audit recommendations.

5. The present document is submitted to the Board of Auditors and ACABQ for their evaluation.

II. Progress report on specific steps taken to implement the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1998-1999

6. This chapter describes the steps taken or to be taken by UNICEF in response to the recommendations of the Board of Auditors and ACABQ on its accounts for the biennium 1998-1999.

Recommendation No. 1

7. UNICEF should closely monitor programme implementation levels so that desired implementation benchmarks could be achieved.

Measures taken by UNICEF

8. UNICEF takes a number of steps to ensure the close monitoring of programme implementation levels:

(a) At the field level, country offices pay particular attention to programme expenditure rates, achievement of the programme objectives, and the impact that programmes are having on the lives of women and children during their annual and mid-term reviews. Further, with the use of management tools provided by the Programme Manager System (ProMS), country offices are able to monitor their expenditure performance and take corrective actions if necessary;

(b) At the headquarters' level, Programme Division analyses the financial implementation of country programmes and provides reports to the Global Management Team on country performance, together with recommendations for improvement twice a year. With continued monitoring of country office performance, the provision of programme guidelines and dissemination of best practices, increased implementation levels are expected.

9. The Deputy Executive Director, Programme and Strategic Planning, is accountable for implementation of the audit recommendation.

Recommendation No. 2

10. UNICEF should revise the mandate of OIA to reflect the annual reporting to the Executive Board.

Measures taken by UNICEF

11. In accordance with the proposal made by UNICEF to the Executive Board at its third regular session of 1997, the secretariat presented an annual report to the Executive Board in 1998. The mandate of OIA will be revised by 31 December 2000 to reflect the annual reporting to the Executive Board. The Executive Director and the Director, OIA, are accountable for implementation of the audit recommendation.

Recommendation No. 3

12. UNICEF OIA should formulate policy guidelines on working paper preparation in compliance with accepted internal auditing standards, and evidence of supervisory review should be shown on working papers to confirm that they have been subject to a proper level of supervisory review.

Measures taken by UNICEF

13. UNICEF OIA has established a working group to develop a policy and management procedures for the preparation and review of audit working papers to meet accepted internal auditing standards. The new policy and procedures will become effective within OIA from 1 January 2001. The Executive Director and the Director, OIA, are accountable for implementation of the audit recommendation.

Recommendation No. 4

14. UNICEF should take expeditious action to extend the database tracking system to all regional offices and headquarters' divisions to enhance the monitoring capacity for internal audit recommendations.

Measures taken by UNICEF

15. UNICEF OIA has established a working group to develop enhancements to the audit database that will allow regional offices and headquarters' divisions access to the audit recommendations and appropriate elements of audit reports. The revised database will be completed and operational within OIA by 31 December 2000. Access to the database will be progressively rolled out to the regional offices and headquarters' divisions in 2001. The Executive Director and the Director, OIA, are accountable for implementation of the audit recommendation.

Recommendation No. 5

16. UNICEF should improve its working capital management in order to attain the accepted liquidity standard.

Measures taken by UNICEF

17. UNICEF continuously assesses its working capital management in light of the Board of Auditors' recommendation. The UNICEF Comptroller is accountable for implementation of the audit recommendation.

Recommendation No. 6

18. UNICEF should disclose separately, convertible balances of general resources and supplementary funds in the "Notes to the financial statements" to facilitate the determination of the UNICEF liquidity position based on its policy.

Measures taken by UNICEF

19. UNICEF will review the issue of separate disclosure of convertible balances of regular resources (general resources) and other resources (supplementary funds and emergency relief/rehabilitation) in the "Notes to the financial statements" when preparing the financial statements for the biennium 2000-2001. The UNICEF Comptroller is accountable for implementation of the audit recommendation.

Recommendation No. 7

20. UNICEF should develop non-financial performance indicators as a basis for assessing its programme performance.

Measures taken by UNICEF

21. Financial implementation rates are only one of many indicators being used to monitor programme performance. Country office management augments expenditure rates with monitoring implementation through field visits to ensure that inputs have been received, that activities have been carried out and that performance indicators are being measured. Additionally, country offices set out annual management plans to define programme objectives, the strategies to reach the objectives, the inputs necessary to carry out the activities that will attain the objectives, and a monitoring system where indicators are measured to ensure that the desired outcome is achieved.

22. The Deputy Executive Director, Programme and Strategic Planning, is accountable for implementation of the audit recommendation.

Recommendation No. 8

23. UNICEF should consider external representation from another United Nations organization on its Internal Audit Committee.

Measures taken by UNICEF

24. The administration is considering the addition of representation from another United Nations organization on its Audit Committee. UNICEF has commissioned a Quality Assurance Review of the audit function that will be conducted in mid-2001 by the Institute of Internal Auditors. The Quality Assurance Review will include consideration of the role and membership of the UNICEF Audit Committee, and the administration will carefully review the observations and recommendations of that review in addressing the subject. The Executive Director is accountable for implementation of the audit recommendation.

Recommendation No. 9

25. UNICEF should establish a roster to guide its selection of consultants in its Supply Division. Also, the Supply Division should fully comply with the established procedures relating to the evaluation of consultants.

Measures taken by UNICEF

26. UNICEF Supply Division has established a roster of qualified and pre-screened candidates to allow for a more efficient selection process of temporary assignments. Additionally, the Division has also established individual files for all consultants. Further, the Division will no longer issue final payments on consultancy contracts unless the evaluation reports are presented with the payment requests. The Director, Supply Division, is accountable for implementation of the recommendation.

Recommendation No. 10

27. UNICEF should ensure that the management of the Americas and the Caribbean Regional Office (TACRO) ensures full compliance with the Administrative Instructions relating to the engagement of consultants.

Measures taken by UNICEF

28. At a meeting of all staff held in December 1999, the Regional Director of TACRO led the review of the audit findings and, in particular, the underlying causes of the delays in the signing of Special Service Agreements (SSAs). To address the audit finding, it was agreed that the office's quarterly monitoring reports will include, as a management performance indicator, the number of SSAs that are signed on time. In 2000, improvement in this area has been noted. TACRO will continue to stress the importance of ensuring compliance with the relevant Administrative Instructions and will include the management indicator regarding the timely signing of SSAs as an input in the staff's performance evaluation reports for the year 2000. The Regional Director, TACRO, is accountable for implementation of the audit recommendation.

Recommendation No. 11

29. UNICEF should ensure that the Integrated Monitoring and Evaluation Plan (IMEP) is implemented in the remaining 23 countries of TACRO to enhance monitoring and evaluation of programmes in the region.

Measures taken by UNICEF

30. In preparation for the next programme cycle, the countries under TACRO will be holding strategy meetings in the last quarter of the year 2000. The regional office, which will be participating in these meetings, will ensure that these countries fully implement IMEP. The Regional Director, TACRO, is accountable for implementation of the audit recommendation.

Recommendation No. 12

31. UNICEF should ensure that the Brasilia field office closely monitor purchase orders for more timely delivery of goods.

Measures taken by UNICEF

32. With the implementation of the ProMS Supply Module in the Brasilia office, monitoring of purchase orders has become more transparent. Project officers are now in a position to check pending supplies, and this information will enable the staff to follow-up on the timely delivery of goods. The Regional Director, TACRO, and the Representative of the Brasilia field office are accountable for implementation of the recommendation.

Recommendation No. 13

33. UNICEF should ensure that the Jakarta field office fully comply with procurement procedures relating to competitive bidding.

Measures taken by UNICEF

34. To ensure competitive bidding, the Jakarta field office invited five and seven suppliers on 25 September 1998 and 3 March 2000, respectively, when the office subsequently needed to procure additional supplies which were the subject of the audit recommendation. Further, the field office is taking the following steps: (a) reviewing the present bidders' list for further categorization of suppliers (i.e., big, small and medium companies); (b) completing the company profiles of existing and new suppliers in the bidders' list; and (c) evaluating the company suppliers. In addition, the field office is now using the "waybill" system to control and monitor the flow of supplies. The Regional Director for the East Asia and Pacific Regional Office and the Representative of the Jakarta field office are accountable for implementation of the audit recommendation.

III. Progress report regarding the status of implementation of the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1996-1997

35. After its audit of the accounts for the biennium 1998-1999, the Board of Auditors reviewed the status of implementation of the recommendations included in its report on the audit of the accounts for the biennium 1996-1997. The Board noted implementation of the following recommendations: (a) UNICEF should ensure that all systems are tested for year 2000 compliance with sufficient lead time to address any deficiencies; and (b) UNICEF should ensure the inclusion of a termination clause in future negotiations for office space lease agreements. Further, the Board agreed with the action taken by UNICEF on the following recommendation: UNICEF should recover a total of $1.45 million accounted for by five National Committees.

36. The Board of Auditors positively noted the steps taken by UNICEF to implement the following recommendations:

(a) UNICEF should strengthen the oversight responsibilities on the review of liquidation statements in respect of cash assistance to Governments to ensure that they are properly supported with complete details;

(b) UNICEF should expand and intensify its fund-raising activities, particularly in the area of general resources, and also strengthen the monitoring and control of expenditures;

(c) UNICEF should strengthen its efforts to obtain formal receipts from Governments as evidence that supplies and equipment have been received;

(d) The administration should ensure that recruitment of consultants fully complies with established rules and procedures;

(e) In order to improve its financial performance, UNICEF Greeting Card and related Operations (GCO) should develop new marketing, advocacy and sales promotional strategies in order to increase the volume of its product sales and also increase its fund-raising;

(f) The administration should establish a more frequent interval for the transfer of sales proceeds to UNICEF by the National Committees to improve the recovery rates of sales proceeds;

(g) The administration should ensure that all National Committees for UNICEF comply with the cash accounting reporting requirements;

(h) UNICEF should review the formats of the monitoring and evaluation reports that are submitted to the Executive Board for uniformity in presentation and to ensure that the required information is provided;

(i) UNICEF should ensure that established procedures relating to the evaluation of the performance of consultants are complied with fully;

(j) UNICEF should ensure that National Committees and field offices operate within the established limits. In addition, UNICEF, in concert with the sales partners, should evolve new marketing strategies in order to boost the sales volume of the sales partners for desired profit targets to be achieved;

(k) UNICEF should monitor the activities of the sales partners to ensure strict compliance with established promotion activities.

17. The Board of Auditors did not require any further action on the above recommen.'ations. However, the Board indicated that it would continue to monitor and review the areas covered in future audits.

IV. Recommendations that would require action by the General Assembly

38. The administration does not see any recommendation of the Board of Auditors that would require action by the General Assembly.

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For action

Establishment of an operational reserve

Summary

The present report has been prepared in response to the recommendation of the Advisory Committee on Administrative and Budgetary Questions to review the advantages and disadvantages of establishing an operational reserve for both regular and other resources (E/ICEF/1999/AB/L.10, para. 9).

This review takes into consideration that UNICEF programme and financial planning are frequently brought before the Executive Board through a series of interrelated documents to facilitate oversight. This close consultation with the Board ensures that expenditure plans are based on reasonable income expectations.

UNICEF has a long history of managing its cash needs and flows through effective planning. Enhancements to UNICEF financial management systems, together with increased Government and National Committee support, will enhance the ability of UNICEF to manage cash resources even more effectively, thereby making the establishment of a funded operational reserve unwarranted at this time.

I. Introduction

1. On the recommendation of the Advisory Committee on Administrative and Budgetary Questions (E/ICEF/1999/AB/L.10, para. 9), UNICEF has conducted a review of its policy of not having an operating reserve for both regular and other resources. A number of other United Nations organizations have such a reserve, but UNICEF, with the approval of the Executive Board, has chosen to manage its spending plan and liquidity requirements without this type of budgetary provision.

* E/ICEF/2001/2.

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The Board last considered this issue in 1987 (E/ICEF/1987/AB/L.9) and approved, with a small adjustment, the continuation of the current liquidity policy as adequate to manage UNICEF cash flow requirements (E/ICEF/1987/11, decision 1987/14).

2. A funded operating reserve is an established balance sheet account which holds a designated amount of funds separate and apart from other assets to meet unanticipated short-term shortfalls between cash receipts and disbursement obligations.

3. UNICEF employs a variety of financial management techniques and processes to plan its spending requirements against reasonable income expectations. These financial management tools include the Board-approved medium-term financial plan (MTFP), which is updated annually; the multi-year funding framework (MYFF); the country programme recommendation (CPR); and the biennial support budget. With the critical analysis and discussion at the Board, these key financial planning documents have been indispensable tools for responsible overall financial management and for maximizing resources available to programmes within the constraint of resource availability and predictability.

4. In the absence of an operating reserve and authority to borrow funds to address short-term liquidity requirements, UNICEF ensures adequate cash funding by managing financial planning processes to control programming requirements within reasonable cash flow expectations based upon the financial commitments made by donors.

5. The objective of this review is to make a recommendation regarding how UNICEF should manage its financial liquidity in the future in order to continue to support the maximization and continuity of programme delivery while providing flexibility to address short-term cash flow requirements.

II. Review of existing financial management framework

6. The MTFP is a rolling four-year income and expenditure plan which determines the affordable levels of regular resources for programmes, as outlined in the various CPRs and the biennial support budget. The plan is updated and presented to the Executive Board on an annual basis to ensure that the projections are realistic and in conformity with the expectations of the Board.

7. The MYFF (E/ICEF/2000/5), which was approved at the first regular session of 2000 of the Executive Board (E/ICEF/2000/8/Rev.1, decision 2000/3), was prepared in consultation with Board members to increase the volume and predictability of regular resources. The annual pledging event is one element of the MYFF. At that event, donors are expected to make funding level commitments and provide payment schedules for the next year, and commitments or indications for the ensuing three years. This predictability is extremely important to UNICEF in that it provides for assured programme planning and improved cash flow management.

8. A programme of cooperation is developed for each country in consultation with national authorities. The CPR, presented to and approved by the Executive Board, details the results to be achieved and the financial resources required to attain them. The financial projections in the CPR are estimates based on the best information available at the time because they are forecast for up to five years into the future, with limited assurance at the time of estimation of actual income

availability. The actual regular resources allocation to each country programme is determined through the application of a formula modified and approved by the Executive Board at its 1997 annual session (E/ICEF/1997/P/L.17 and E/ICEF/1997/12/Rev.1, decision 1997/18).

9. The biennial support budget is presented to the Executive Board for approval every two years. This document incorporates the relevant two-year projected regular resources budget for programme, programme support, and management and administration of the organization. The resources upon which the budget is formulated are based on the most recent MTFP already approved by the Executive Board.

10. The Programme Manager System and the Financial and Logistics System have greatly improved the ability of UNICEF to monitor field-level activities on an ongoing basis and to manage cash levels to meet evolving circumstances. Up-to-date information is available to track resource utilization and to spot accumulating underemployed resources.

III. Existing liquidity policy

11. UNICEF submitted proposals to the Executive Board in 1980 and 1981 for the authority to negotiate standby lines of credit to meet the seasonal imbalance in cash flow. In 1981, the Board decided that it was not necessary to have a standby line of credit (E/ICEF/685, para. 205). To address the issue of liquidity, the Board recommended that Governments and National Committees make their remittances to UNICEF as early as possible.

12. In 1986, the UNICEF Executive Board, noting that the financial crisis facing the United Nations might possibly have implications for UNICEF and its liquidity policies, requested a review of those policies to be presented at its 1987 session (E/ICEF/1986/12, paras. 175-176). At its 1987 session, the Board reviewed and approved:

(a) The continuation of the existing liquidity policy;

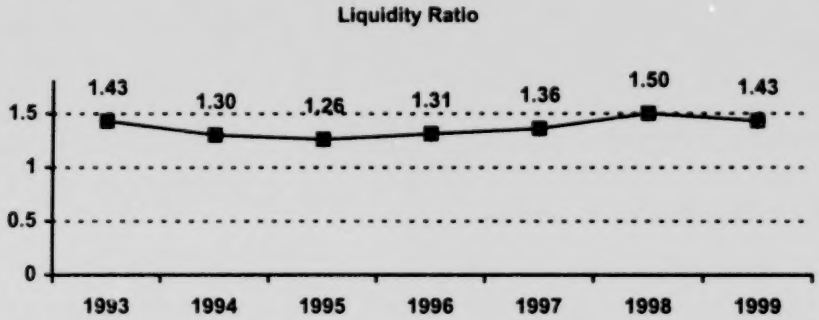
(b) The increase in the convertible year-end liquidity requirement for regular resources cash balances from 8 to 10 per cent of the following years' regular resources income.

13. The liquidity policy is limited to regular resources because other resources must be self-funding, with the norm that the funds must be received in advance of any obligations or spending being undertaken by UNICEF. Within the liquidity policy is the understanding that UNICEF pools its financial resources and can make temporary use of up to one half of other resources on hand within a financial period to offset short-term imbalances between regular resources expenditures and income.

14. Within the existing operating parameters, the norm for the other resources liquidity ratio is 1 to 1, i.e., short-term assets can be expected to equal short-term liabilities; hence, the liquidity ratio for other resources can never be expected to be in excess of 1 to 1. For regular resources, the liquidity ratio should be at least 1 to 1, but prudent financial management principles would dictate a ratio of 1.5 to 1 to provide for variations in the timing of cash receipts. With the existing almost equal split of regular resources to other resources, this translates into a desirable combined

liquidity ratio of about 1.25 to 1. The ratio becomes a trade-off between holding too much unutilized cash versus not having enough cash to meet current obligations. It is a balance which has to be viewed in terms of its implication for programme implementation. In these terms, it means that every dollar held back to support liquidity is one dollar that cannot be employed in the programme effort of the organization.

15. The UNICEF combined liquidity ratio for the period 1993-1999 ranged from a low of 1.26 to 1 to a high of 1.50 to 1. In 1999, it was 1.43 to 1. The historical liquidity ratios fall above the desirable level as indicated below.



16. Liquidity requirements and/or an operating reserve can only be used to address temporary mismatches between resource inflows and outflows. Anything other than temporary mismatches must be addressed through increased income or decreased programming. Liquidity requirements and reserves can only provide management with some time to react and to put in place longer-term adjustments.

IV. Key elements to consider

17. Predictability is key to establishing the balance between income and expenditure planning. This predictability requirement has to be addressed both internally and externally. Within UNICEF, the new information systems are enhancing access to timely information in order to manage cash more efficiently. Externally, UNICEF is endeavouring to enhance income predictability within the principles embodied in the new MYFF.

18. Short-term imbalances between income and expenditures can be managed through the use of working capital (the pool of financial resources that an organization holds which can be used to meet its short-term obligations). This is the primary technique that UNICEF has employed for 53 years.

19. A pre-arranged resource transfer schedule from donors would greatly assist the organization to manage cash requirements and to reduce the level of working capital needed to meet disbursement requirements. An improved scheduling of cash transfer is being introduced with the National Committees, in the context of the new Recognition Agreements, that calls for quarterly, rather than annual, transfers to UNICEF. Government donors have started providing commitments to resource transfer schedules as part of the MYFF process. In 2000, 10 countries committed to

advance schedules, and these 10 accounted for about 72 per cent of the total of $337 million pledged by government donors.

20. The other resources component of income has been increasing in an erratic pattern as a percentage of total resources. In 1993, other resources equalled 41 per cent of total resources; in 1999, it increased to 47 per cent. While other resources increased by 48 per cent between 1993 and 1999, regular resources increased by only 16 per cent. This changing pattern tends to increase the pool of cash available because other resources are normally provided in advance of the obligating stage of the spending cycle.

Change in income proportion

(In millions of United States dollars)

Year	*Regular resources*	*Other resources*	*Total income*	*Percentage of other resources to total income*
1993	509	357	866	41
1994	535	471	1 006	47
1995	537	474	1 011	47
1996	551	393	944	42
1997	547	355	902	39
1998	571	395	966	41
1999	589	529	1 118	47

21. There has been a dramatic shift in the sources of regular resources income over the same seven-year period. The private sector has gone from representing 19 per cent of regular resources income in 1993 to 34 per cent in 1999. The move to quarterly receipts from this growing source of income will provide for a smoother and more predictable cash flow stream.

Regular resources income

(In millions of United States dollars)

Year	*Voluntary contributions*	*Private sector*	*Other income*	*Total regular resources income*	*Private sector share of regular resources income (%)*
1993	384	95	30	509	19
1994	377	113	45	535	21
1995	367	132	38	537	25
1996	365	150	36	551	27
1997	360	160	27	547	29
1998	346	180	45	571	32
1999	348	203	38	589	34

V. How some other voluntarily-funded United Nations agencies manage liquidity

22. The United Nations Development Programme has established a funded reserve to support continued short-term programme activity at planned levels in the event of income/disbursement imbalances. At the end of 1999, the reserve amounted to $180 million. The calculation of their reserve for regular resources is the sum of the following components:

(a) Income component. The equivalent of 10 per cent of the average of the annual voluntary contributions received over the most recent three years, rounded to the nearest $1 million;

(b) Expenditure component. The equivalent of 2 per cent of the average total annual expenditure incurred over the most recent three years;

(c) Liability and structural risk component. The equivalent of 10 per cent of the sum of the income and expenditure components, rounded to the nearest $1 million;

(d) Cash flow component. The equivalent of the cash needs for one month, calculated as one twelfth of the total expenditure of the most recent year, rounded to the nearest $1 million.

23. The World Food Programme has a funded operational reserve with a balance of $57 million. This is used to cover shortfalls in cash against confirmed, but uncollected, contributions. Once the cash is collected against the confirmed contribution, it is returned to the reserve. Currently, there is no provision for replenishing the reserve should the contribution become uncollectable.

24. The World Health Organization has a Working Capital Fund that was funded up to $31 million at the end of 1999. The fund finances regular budget implementation pending receipt of assessed contributions. There is no reserve for voluntary contributions.

25. The Office of the United Nations High Commissioner for Refugees has a Working Capital and Guarantee Fund and an operational reserve. The former has an Executive Committee-established level of $50 million, and the latter is required to be 10 per cent of the proposed programmed activities in the annual programme budget being submitted for approval. The operational reserve must be a minimum of $10 million. In 2000, the actual level was established as $82.1 million.

VI. Alternatives

26. UNICEF does require a strategy for dealing with periodic mismatches between receipt and disbursement requirements. Anything longer than a short- term mismatch must be addressed by more permanent changes in income or programming levels. While access to information and donor multi-year commitments and schedules will reduce the frequency and size of the short-term mismatches, they will never be entirely eliminated. The alternatives available to manage the potential short-term gaps are to maintain the current system or create a funded operating reserve.

Alternative 1 — Retain current system

27. UNICEF can continue to manage its short-term liquidity requirements on a cash flow basis. The current 10 per cent liquidity requirement,[1] along with the norm that other resources contributions are provided before UNICEF enters into commitments, should provide adequate funding to meet short-term shortfalls.

28. UNICEF will be assisted further in managing its cash flow requirements with the greater income predictability and payment schedules afforded by the MYFF and the anticipated quarterly funding flows from the National Committees. In addition, the new financial management systems will provide more timely and accurate financial information on the total activities of the organization to promote more effective cash management.

29. The retention of the current system would not change the amount of planned programme expenditures for the period 2001-2003.

Alternative 2 — Establish a funded operating reserve

30. The establishment of a funded operating reserve would be coupled with all of the elements mentioned in Alternative 1 above except that the year-end 10 per cent liquidity requirement established in 1987 would be eliminated as being redundant. However, UNICEF would have to maintain a working capital at a sufficient level to meet daily cash requirements.

31. Determining the appropriate level of reserve is subject to a variety of assumptions. As an example, it could be one month of regular resources expenditures to cover delays in receipts and unexpected decrease in income for a total of about $47 million at current year 2000 expenditure levels. Such an allocation of receipts could not be transferred to a reserve in one year, thus its creation would have to be phased over a number of years in order to mitigate the impact on programming. Unless there is an extraordinary increase in regular resources income, it would be reasonable to expect to build up the reserve over a period of four years at an average annual rate of about $12 million.

32. Under this scenario, the approval and creation of a funded operating reserve, if all other things remained equal, would require a reduction in planned expenditures for 2001-2003 of $36 million.

VII. Recommendation

33. The Executive Director *recommends* that the Executive Board adopt the following draft recommendation:

The Executive Board

Decides that UNICEF should not establish a funded operating reserve. The funding of such a reserve would divert resources from programmes and have a negative impact with no added value. In addition, present and future enhancements in the predictability of cash receipts from income and data availability from the new financial management systems make the establishment of such a reserve unwarranted at this time.

Notes

[1] The UNICEF liquidity policy recommends a minimum year-end regular resources convertible cash balance equal to 10 per cent of projected regular resources income.